



**Willmar Associates International, Inc.**

Marketing Consultants  
ROBERT C. WILLIAMSON, President

April 7, 1998

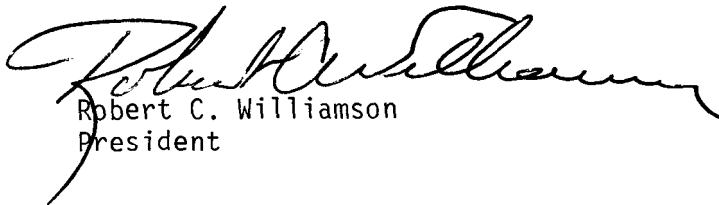
The Honorable John M. McHugh, Chairman  
U. S. House of Representatives' Committee on Government and Oversight, Subcommittee  
on the Postal Service  
Rayburn Building, Room B-349C  
Washington, DC 20515-6147

Dear Mr. Chairman:

In response to your letters of December 11, 1997 and February 27, 1998, we extend our sincere gratitude for the opportunity to comment on the latest draft of H.R. 22. Our statement and one enclosure are attached hereto.

Please do not hesitate to contact us if you have any questions.

Very respectfully,



Robert C. Williamson  
President

STATEMENT OF ROBERT C. WILLIAMSON, PRESIDENT, WILLMAR ASSOCIATES INTERNATIONAL, INCORPORATED, A FLORIDA CORPORATION FOUNDED IN 1987 TO PROVIDE CONSULTING SERVICES WITHIN THE MAIL PROCESSING INDUSTRY, AND IN RESPONSE TO LETTERS DATED DECEMBER 11, 1997 AND FEBRUARY 27, 1998 FROM THE HONORABLE JOHN M. MCHUGH, CHAIRMAN, SUBCOMMITTEE ON THE POSTAL SERVICE OF THE HOUSE OF REPRESENTATIVES' COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT.

APRIL 7, 1998

WE HAVE REVIEWED OUR TESTIMONY OF SEPTEMBER 26, 1996 AND THAT OF OTHERS ON H. R. 3717, THE POSTAL REFORM ACT OF 1996 AND THE CURRENT DRAFT OF H. R. 22, THE POSTAL REFORM ACT OF 1997. THE ADDITIONS, REVISIONS AND DELETIONS IN THE LATTER CLEARLY REFLECT THE OUTSTANDING EFFORTS BY YOU AND YOUR STAFF TO IMPLEMENT RECOMMENDATIONS SUBMITTED BY THE PRIVATE SECTOR. ACCORDINGLY, OUR COMMENTS WILL BE BRIEF AND ARE LIMITED TO SECTION 102 AND CHAPTER 37:

SECTION 102. THIS REVISION IS AN EXCELLENT COMPROMISE OVER THE INITIAL DRAFT WHICH WOULD HAVE ABANDONED THE TRADITIONAL TITLE OF POSTMASTER GENERAL WHICH DATES BACK TO THE 1790s WHEN BEN FRANKLIN BECAME THE FIRST POSTMASTER GENERAL. AS FORMER POSTMASTER GENERAL TONY FRANK ONCE STATED THAT THE POSTAL SERVICE WOULD NEVER BECOME A BUSINESS BUT IT CAN BE MORE BUSINESS-LIKE. WE CONCUR WITH THAT VIEW AND DOUBT TITLE CHANGES WILL REVISE THE GENERAL ACCOUNTING OFFICE'S CONCLUSION THAT THE POSTAL SERVICE HAS AN "AUTHORITARIAN MANAGEMENT CULTURE".

CHAPTER 37. THERE IS LITTLE DOUBT THAT THE ECONOMIC PROFESSIONALS IN THEIR TESTIMONY LAST YEAR WERE FAR FROM TOTAL AGREEMENT ON THE PROPOSED CHANGES IN THE RATE-MAKING PROCESS. ONE OF THEM HELD RESERVATIONS ABOUT USING THE TELECOMMUNICATIONS INDUSTRY USE OF PRICE CAP METHODS AND ITS APPLICABILITY TO THE POSTAL SERVICE. AS WE TESTIFIED IN SEPTEMBER 1996, THERE WERE SERIOUS CONCERNS WITHIN THE PRIVATE SECTOR OVER THE AUTHORITY OF THE POSTAL SERVICE TO EST-

ABLISH LOWER WORKSHARING DISCOUNTS WHILE MAINTAINING THE SAME BASE RATE AS A MEANS TO GAIN ANY NEEDED REVENUE.

THE PRIVATE SECTOR RESPONDED VIGOROUSLY TO FORMER POSTMASTER GENERAL FRANK'S REQUEST TO ASSIST THE POSTAL SERVICE IN MEETING ITS AUTOMATION GOALS AND OBJECTIVES. CAPITAL INVESTMENTS IN AUTOMATION SYSTEMS BY LETTERSHOPS, SERVICE BUREAUS AND PRIVATE COMPANIES RESULTED IN COLLECTIVE EXPENDITURES IN THE HUNDREDS OF MILLIONS OF DOLLARS AND ONGOING POSTAL SERVICE REQUIREMENTS HAVE STEADILY INCREASED THE INVESTMENT WITHOUT WRITTEN CONTRACTS FROM THE POSTAL SERVICE. IN MOST CASES, THE PROCUREMENT OF SOPHISTICATED HAD TO BE AMORTIZED OVER SEVERAL YEARS. THE SERIOUSNESS OF THIS MATTER WAS RAISED BY THE OFFICE OF THE CONSUMER ADVOCATE TO THE POSTAL RATE COMMISSION IN THE ONGOING RATE CASE - DOCKET R97-1. THEIR POSITION WAS THE SUBJECT OF AN ARTICLE IN THE BUSINESS MAILERS REVIEW IN THE MARCH 23, 1998 ISSUE AND IS QUOTED IN PART AS FOLLOWS: " AS AN ALTERNATIVE. OCA SAYS, IF THE COMMISSION FINDS THAT THE USPS HAS DEMONSTRATED SOME PORTION OF A RATE LEVEL INCREASE IS WARRANTED, IT COULD RECOMMEND KEEPING THE SINGLE-PIECE LETTER RATE AT 32¢ AND RAISE OTHER RATES". THE AFOREMENTIONED SIZABLE INVESTMENTS WERE MADE BASED ON STABILITY IN THE AUTOMATION INCENTIVE RATES OVER THE LONG TERM VS. SHORT TERM. ACCORDINGLY, WE RESPECTFULLY REQUEST THAT A REVISION TO THE APPROPRIATE SECTIONS OF THIS CHAPTER IN THE CURRENT DRAFT BE MADE IN ORDER TO PRECLUDE ARBITRARY CHANGES TO THE WORKSHARING INCENTIVES WHICH WOULD HAVE AN ADVERSE IMPACT ON SMALL BUSINESSES.

WE RECENTLY RECEIVED A LETTER FROM MR. RALF SEIFFE, CEO, MAIL SORT-CHICAGO OFFERING HIS PERCEPTIONS OF THE CURRENT AND PROPOSED RATE MAKING PROCESS. A COPY OF HIS LETTER IS AN ENCLOSURE TO THIS STATEMENT. MR. SEIFFE HAS 18 YEARS EXPERIENCE WITH WORKSHARING

AND WAS A MEMBER OF THE POSTMASTER GENERAL'S WORKSHARING TASK  
FORCE. HE HAS ALSO APPEARED WITH ME BEFORE YOUR DISTINGUISHED  
COMMITTEE.

WE GENERALLY SUPPORT ALL OTHER SECTIONS OF THE ACT AS DRAFTED. HOWEVER, MOST  
BUSINESS MEN IN THE PRIVATE SECTOR BELIEVE THAT CHALLENGES OF COMPETITION REST  
WITH PRIVATE COMPANIES WHICH HAVE THE DISCIPLINES OF STOCKHOLDERS AND MARKET WHILE  
THE POSTAL SERVICE DOES NOT.

WE THANK YOU FOR THE OPPORTUNITY TO EXPRESS OUR VIEWS ON H. R. 22 AND WILL ASSIST  
YOU AND YOUR STAFF AT ANY TIME IF NEEDED.

# Ralf Seiffe

April 1, 1998

Robert C. Williamson  
Wilmar Associates International  
2529 Regal River Road  
Valrico FL 33594

Dear Bob:

As discussed, here are my comments going for inclusion in your letter to Congressman McHugh regarding **HR22**:

With respect to Chapter 37:

It is the private sector's opinion that a bureaucracy will always act like a bureaucracy and that a monopolist bureaucracy is especially dangerous to economic efficiency. Mailers are concerned that without strong oversight, the Postal Service will unduly burden monopoly services with the overhead costs of non-monopoly postal services. We worry that the **legislation, as** proposed, allows the USPS too much freedom to tinker with the worksharing rates in order to keep the single piece rates under control and **within** the **limits** of the pricing mechanism,

The record of postal **ratemaking** is replete with examples of the tension between mailers's desire to **attribute** the USPS's costs and the Service's desire to **classify** as many of their costs as possible as institutional. **Mailer** prefer attribution because when they undertake the work, avoided **attributable** costs translate into discounts. The Postal Service prefers the opposite situation because it gives them the freedom to **allocate** overhead costs via markups. The determination of this issue is a substantial part, of each Rate Case's controversy-and for good reason. The current rate case is no different; the USPS has introduced testimony from Professor Bradley that attempts to explain that volume changes do not result in corresponding increases in work hours. If that is so, then total costs, which haven't changed, now become more proportionally **institutional** costs and subject to the economic uncertainty allocation to the classes creates.

Section 37 **eliminates** many of the protections mailers now enjoy because it is silent as to the relationship between the single piece rate and the incentive rates **after the initial rates are set**. Presumably, the USPS could continue to use ideas like Professor Bradley's to allocate costs without the **discipline** a rate case imposes. Accordingly, we suggest that once the initial rates are set, the Postal Service be required to maintain either the absolute difference between the the single piece rate and any discounted rate or the same percentage rate difference, whichever is greater. If the USPS's operating environment changes to the extent that the maintaining such differences becomes uneconomic, then they should be required to put mailers on notice with a litigated proceeding before the body **replacing** the Postal **Rate** Commission.

Sincerely,

